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TRUST AS A COMPONENT OF SOCIAL CAPITAL OF ENTERPRISES

Summary

The social capital of an enterprise, understood as a network of relations among particular entities within a company, as well as those between the firm and its environment, can be best created by enhancing trust levels. Trust is indispensable for the development of every enterprise. Therefore, business entities have to undertake such steps that will reinforce it. The purpose of this paper is to discuss the nature of social capital on an enterprise level and to analyse the issue of trust as one of the pillars on which social capital is founded.

Key words: social capital, trust, human capital

1. Introduction

In order to be able to exist and develop, enterprises must possess capital, i.e. resources that help multiply economic value [http://mfiles.pl/]. Capital can take various forms. Most generally speaking, we can distinguish (i) physical and financial capital and (ii) human capital [*Ekonomia ogólna*…, 2007, p. 68]. While the former has long been the focus of interest of economists, theories of human capital are relatively new. This might be so because human capital has an intangible nature. Depending on the level of analysis, it is defined as the characteristics, abilities and skills of an entity, organisation or society.

This paper focuses on the perspective of an enterprise, so it must be assumed that the term human capital refers to certain personal characteristics of a company's employees which can be used by the company to increase its value. Although various authors propose different sets of human capital attributes, most of them mention the following: knowledge, experience, skills, abilities, attitudes, qualifications, intellectual attributes, motivation for action, health, values, and capabilities [See: Jamka, 2011, p.152]. However, there is yet another factor that makes it possible to utilise the above qualities for the benefit of a company, and namely: contacts with other people, bonds created among colleagues, between the employees and the ex-

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ternal environment, as well as between the firm itself and the particular elements of its environment. It is thanks to various networks of relations that enterprises can function and thrive. This leads us to the conclusion that taking full advantage of human capital is associated with an appropriate level of social capital.

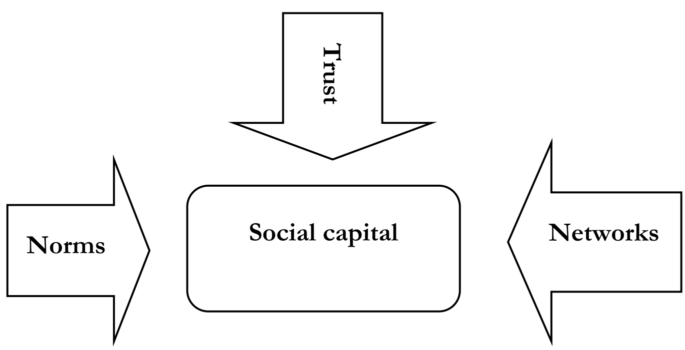
The present paper aims to discuss the nature of social capital on an enterprise level and to analyse the notion of trust as a foundation of social capital in terms of the possibilities of its creation and its significance for enterprises.

2. Social capital of an enterprise

The concept of social trust has been researched since the 1970s. Nevertheless, no uniform view of the phenomenon has been developed as yet, which results in a wide diversity of approaches and definitions. R. Putnam understands social capital as features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated actions [Stypułkowski, 2008, p. 296.]. F. Fukuyama, on the other hand, interprets it as a capability that stems from the existence of trust within a society or its part [Fukuyama, 1997, p. 39]. For J. Coleman, social capital is a set of characteristics of social life: networks, norms and trust which enable co-operation among people and help coordinate their actions for the common good [Skawińska, 2012, p. 15].

FIGURE 1

Parts of social capital according to J. Coleman



Source: own work.

There are at least two conclusions that can be drawn from the above definitions. First, social capital *is inextricably* linked to trust. As W. Dyduch observes, some researchers even equate social capital with trust, others see trust as a source of social capital, while still others believe the former is a constituent of the latter [Dyduch, 2004, p. 49]. It can be said, therefore, that social capital is based on trust, but also that it boosts the levels of trust: *the interdependence is mutual.*

Second, social capital concerns society as a whole, it is inherent in society and benefits its members. This does not mean, however, that the concept cannot be considered on other levels. Assuming that a given society consists of certain groups of people, including formal groups which comprise various organisations, social capital can be discussed from the point of view of an enterprise.

A number of definitions take this exact perspective. It is often emphasised that social capital is of crucial importance for enterprises. For instance, P. S. Adler and S. W. Kwon are convinced that the concept describes a company's good reputation originating from the existence of good social relations which are established to facilitate certain actions. P. Cooke, N. Clifton and M. Oleaga associate social capital with using the social norms of reciprocity, trust and exchange for achieving specific economic, and political, goals. W. Dyduch identifies social capital as the ties and relationships both among the employees of a company and between the company and its environment which help increase the firm's efficiency, mainly through facilitating co-operation [Grzanka, 2009, pp. 81-82].

It must be assumed that the social capital of a company is of intangible nature. Social capital can be treated as a part and an autonomous dimension of those values which make up the intangible assets of an organisation. It denotes the usefulness of the relations between social and individual characteristics for economic activity [Bartkowski, 2007, p. 59]. According to J. Bartkowski, the social capital of an enterprise stems from group relations, socially defined reputation, the functioning of a network of support and influence, and from the assistance that can be gained thanks to the social position. [Bartkowski, 2007, p. 80].

An appropriate level of social capital brings tangible benefits to a company. Social capital has an impact on efficiency because it: boosts innovation capacity, improves innovation performance, and is a 'catalyst' of knowledge management, providing favourable conditions for the creation of knowledge [Bugdol, 2006, p. 124]. "The social capital accumulated in the external environment helps to achieve greater certainty in the organization's position in its sector and in the market, as well as in society as a whole, as a result of having the necessary resources, obtaining information, and reducing the transaction costs linked to the creation and continuation of business dealings" [Titov, 2013, p. 48].

I. Grzanka noticed that by basing on people's ability to create social ties and relations, social capital results in better exploitation of human competence and knowledge. In view of the above, it seems reasonable to regard social capital as a special component of intellectual capital, which turns human resources into a capital in its own right, making them a value which adds to that of an enterprise. The relations and ties among the people within an organisation, and those across organisations, become a potential: a social resource which capitalises in a company as an increase in its value, and as the benefits gained by its employees and customers. This value is achieved through a transformation of the company's assets, including particularly human competence, knowledge and shared values. It is because of this process of transforming resources (especially human ones) into increased value that social capital is considered to be a development factor of business companies [Grzanka, 2009, p. 89].

It can be assumed, therefore, that social capital [Bratnicki, Dyduch, 2003, p. 5]:

- is a resource which can be invested and expected to bring returns in the future,
- can be exchanged for other forms of capital, even though it is not as exchangeable as economic capital,
- can become a substitute for other resources,
- should be maintained and replenished.

J. Bartkowski claims that social capital raises the level of human capital by influencing the level of education of particular individuals and their readiness for business activity. Moreover, it improves the conditions for co-operation and exchange in society, reduces the costs of exchange, lowers risk, and ensures the necessary predictability of behaviour among partners [Bartkowski, 2007, p. 91].

If companies derive such substantial benefits from social capital, it seems worthwhile to attempt to determine how, through what kind of activity, an enterprise can increase this capital. The author will focus exclusively on one component of social capital: trust, since, as was stressed before, it is widely believed to be the central element of building social capital in a firm.

3. Trust as a company resource

Trust can be defined as the belief that a system of cultural and moral obligations, known to and acknowledged by a given community, will always, and under any circumstances (thus unselfishly), be respected by its members [*Elementy etyki*…, 2004, p. 276]. It is, therefore, connected with the predictability of behaviour and confidence in co-operating partners. "Trust refers to one party's belief that the other party will take actions generating positive outcomes for this party" [Su, 2014, p. 90].

In economic life, higher levels of trust can help reduce the number of top-down, formal regulations, and may restrict state interventionism. Trust streamlines the flow of information, diminishes risk and leads to better collaboration between individuals, enterprises and other business entities. This, in turn, boosts the competitive strength of companies. As J. Kay remarks, if an enterprises is to be competitive, it must strive to achieve a distinguishing ability or capacity to compete, which encompasses the following factors [Kay, 1996, pp. 99-138]:

- architecture: internal and external links of a company which determine the relations with employees, suppliers, customers and competitors;
- reputation: the way in which a company is perceived by its customers; competitive advantage from another source can be helpful in gaining it;

– innovation: the capacity of a company to create new products, technologies and management methods;
– resources, or strategic assets, obtained as a result of previously incurred costs, natural monopoly, or access to protected resources.

We should notice that at least two of these elements: architecture and reputation, are directly based on trust. Whereas, the other two: innovation and resources, are indirectly associated with the notion. It is thanks to trust that a company can acquire desired, unique or rare, resources, e.g. suitable employees, capable of innovative thinking.

Therefore, it must be concluded that trust is a strategic resource in business and can become a source of competitive advantage. Trust easily passes the tests of strategic value [Grudzewski, Hejduk, 2008, p. 10]:

1. the test of worth: thanks to trust, a company can promptly react to changes in a turbulent environment as it helps reduce formality of proceedings;
2. the test of rarity (shortage): high level of trust is a non-tangible asset possessed by few organisations;
3. the test of ownership: interpersonal trust is a kind of employee share ownership because it can be found in employees; it is then closely related to the company and cannot be simply transferred between enterprises;
4. the test of inimitability: trust is fairly resistant to imitation or automatic copying (it is difficult to imitate); this is because it takes a long time to build, while both its exact nature and the process of its creation remain unclear;
5. the test of durability: in a highly turbulent environment, trust can be a guarantee for a universal interpretation of reality;
6. the test of substitutability: trust cannot be replaced with any other utilitarian value since it is a stimulator of other cultural norms;
7. the test of competitive superiority: trust can be a basis for a highly competitive strategy;
8. the test of codification: trust cannot be gained by means of administrative measures or strictly-codified organisational routines;
9. the test of organisation: trust encompasses virtually all the areas of an enterprise's operation;
10. the test of embodiment: the presence of trust directly facilitates the management of a company;
11. the test of importance: trust is significant for efficient functioning and development of companies, at present and in subsequent years.

While analysing the problem of trust on an enterprise level, one must bear in mind that it is not only necessary within a company but should be transferred onto the company's relations with external entities.

How to build trust inside a company? According to M. Bugdol, trust building occurs when [Bugdol, 2006, p. 29]:

– there exist clear rules of action,
– structures and job descriptions are precisely defined,
– communication is based on feedback,

– direct relations between superiors and subordinates are maintained,
– employees co-operate, collaborate and have commitment to their tasks,
– those in charge manage by objectives and delegate power and responsibility,
– interpersonal relations are constantly improved,
– certain behaviour patterns are promoted,
– participatory management style and participatory remuneration systems are used,
– social contracts are in use.

'Internal' trust should be regarded as a precious, intangible resource located in organisational and interpersonal relations. It can also be seen as an element of organisational culture, having a positive influence on both the employees and the efficiency of a company.

Research shows that firms whose staff had more trust in their workplace relationships enjoyed better economic effects, higher profitability and greater flexibility [Juchnowicz, 2007, p. 28]. Employees who trust their superiors are more likely to follow them and pursue the established objectives. They are willing to invest their knowledge, skills and efforts for the sake of their company. Whereas the managers who have confidence in the workers, their skills and attitudes, are able to delegate some of their decision-making powers to the employees, thus allowing the latter to exhibit their competence and achieve greater professional development. According to ***a report by Watson*** Wyatt Worldwide, in companies whose employees had deep confidence in their superiors, the shareholder return within three years amounted to 108%, while in firms where the level of trust was low, it was just 66% [Bojańczyk, 2012, p. 30].

According to R. Sprenger, trust is indispensable for the process of transition from rigid hierarchy towards flexible business policies. He believes that if empowerment, flat hierarchies, team work, learning organisations are to be successful, they all require a solid foundation of trust. Enterprises undergo transformation only on the condition that their employees trust one another [Sprenger, 2011, pp. 33-34].

J. Paliszkiewicz claims that the positive impact of inter-organisational trust consists in [Paliszkiewicz, 2013, pp. 80-81]:
– motivating individuals to undertake open, spontaneous and creative action, activisation of people, and intensification of relationships;
– building honest communication, encouraging individuals to learn;
– better handling of unethical behaviour and suspiciousness;
– development of social capital and creation of conditions for better co-operation;
– sense of security and support felt by employees.

Meanwhile, trust towards the external environment makes it possible to reduce transactional costs by cutting down both the time and the resources necessary to conclude a transaction, as well as by reducing the amount of resources spent on monitoring and execution of contracts. The absence of trust generates about half of the costs incurred by enterprises in this field [Sankowska, 2011, p. 81]. "In one of the commerce speeches Laurence Prusak (IMB CEO) said that any progress happens if you don't trust people (…). Prusak (…) argues that trust in an organization is a perfect lubricant for corporate efficiency which avoids tons of needles monitoring, bargains and negotiations" [Bakiev, 2013, p. 170].

When analysing the problem of building the trust of external entities, it is first and foremost necessary to focus on investors.

Here the question of trust is of utmost importance because it directly translates into the development capacities of companies. Obviously, investors try to limit their risk by choosing the shares of those companies which they trust most. The role of trust is, in fact, enormous: research conducted in the USA and some European countries has shown that firms which had been affected by a trust (reputation) crisis lost some of their market value (8% on average) [Ciaś, 2005, p. 9].

Building the trust of investors involves such activities as: implementation of good practices connected with the transparency of company policy, improvement of the quality of communication with investors, including appropriate communication in crisis situations, and the strengthening of the position of shareholders in stock-listed companies. Information policy plays a major role in this regard. M. Mikołajek-Gocejna suggests that the information policy of a company should be shaped in such a way that investors: (i) understand the strategy of the company and its overriding objectives, as well as the subsidiary systems used for creation of value, (ii) are regularly updated on any progress in implementation of agreed objectives and any other changes, (iii) have access to information about significant events related to the company, which, if withheld or distorted, would have an impact on investment decisions [Mikołajek-Gocejna, 2007, p.55].

Correctly prepared reports, taking into account aspects other than financial ones, can play a major role. Studies conducted by Prince's Accounting for Sustainability Project (A4S) and Global Reporting Initiative (GRI) have revealed that 80% of investors take non-financial data into consideration when making investment decisions [*Inwestorzy i analitycy…*].

A boost in the social capital of a company can also be achieved through increasing the levels of trust among its business partners. At the moment, the following factors are believed to have contributed to the rise in the importance of this type of trust [Grudzewski, Hejduk, 2009, p. 164]:

- increasing specialisation,
- growing interdependence among firms,
- rise in the number of established business relationships,
- greater promptness in establishing business co-operation.

Nevertheless, earning the trust of business partners must be based on four fundamental principles: 1) all the partners must believe that an activity is aimed at achieving common values; 2) common values must translate into specific common goals; 3) the expectations of partners must be compatible with their joint commitment as each of them is more than just a beneficiary; 4) the trust of a partner must be reasonable and should be verified by empirical information [Paliszkiewicz, 2013, p. 60].

K. Arrow, a Nobel laureate, claims that virtually every trading transaction involves an element of trust. Its lack means economic backwardness [See: Bojańczyk, 2012, p. 29]. The author believes that trust has a measurable, economic value since it results in increasing the effectiveness of a system and helps produce more goods. S. Covey, on the other hand, attempts to prove that in many institutions, trust has an impact on costs, speed and quality, which means that a low level of trust is a reason for slower pace, low quality and high costs, whereas, high levels of trust lead to higher speed and quality, and lower costs [*Zaufanie w biznesie*].

Building the social capital of a company can also rely on enhancing the trust of business partners, including suppliers. The relationship between a company and its suppliers must be mutually advantageous. Practically speaking, one should attempt to create non–zero-sum game situations. They are based on trust reinforced by clear and transparent information. Frequently, relationships are insured by means of detailed, long-term contracts. Studies to date indicate that successful co-operation must involve transfer of knowledge between an organisation and its suppliers [Bugdol, Jedynak, 2012, p. 68]. It should be noted that an organisation is able to achieve its goals only if it receives appropriate consumables, while suppliers are dependent on the acceptance of their products by the recipients. The dependence is thus bilateral, requiring consensus and a high level of mutual trust.

Trust has also become essential for the creation and development of distribution channels. It helps alleviate the conflicts which might occur in these channels. It is, therefore, crucial that a transparent agreement is always reached in the best interest of all concerned sides. In a healthy, trust-based culture, intermediaries can even become product ambassadors.

Not only is the trust of customers fundamental for the level of social capital, but also for the very existence of a company. Building the trust of customers must mean winning their confidence in a firm's products and services: by offering appropriate quality, price and shopping terms, as well as trust for the firm itself: its attitude to employees, its approach to the natural environment, its respect for the law and the principles of ethical competition. This is confirmed by a recent (2013) study by Edelman Trust Barometer, whose respondents believed that the most significant elements of trust in a company include: the quality of products (67%), good treatment of workers (66%), and responding to the feedback from customers and their needs. [*Edelman Trust Barometer*] A. Lewicka-Strzałecka claims that trust has a bearing on the choices of customers, because it allows for a reduction of purchase-related risk and helps overcome the cognitive complexity of technical, organisational and informational aspects of the process [Lewicka-Strzałecka, 2003, pp. 195-207].

Notably, trust is at the very core of customer loyalty. M. Bugdol associates trust with benevolence, claiming that it is the latter that helps organisations win the trust of their clients. Benevolence should be understood as readiness to make concessions to the customers, the ability to accommodate individual customer needs, and skilful use of procedures [Bugdol, 210, pp. 76-77]. B. Dobiegała-Korona believes that customer trust towards a firm should consist in mutual profitability. This trust can be developed in such a way that the consumer attitudes are changed by targeting selected customers or by means of random information given to customers 'when the opportunity arises' and thoughtlessly, without cognitive effort. Such a strategy focuses on the emotional aspect. Trust earned in this way is regarded as easier to achieve, but when verified rationally, it can either be reinforced or lost [Dobiegała-Korona, 2007, pp. 23-24].

Operating in a specific region is, moreover, associated with the trust of the local community. This can be built through involvement in actions for that community, helping to solve the main social problems occurring in a given area, support for local initiatives, or contributions to raising the standard of living in the region. It is worth mentioning that a study conducted in the USA proved that two-thirds of the respondents had more confidence in companies engaging in some type of social activity. Another two-thirds claimed they would switch to a different brand if it was associated with a noble cause, provided the other conditions were identical [Low, Kalafut, 2004, p. 99].

Having analysed the methods of building trust, both inside a company and with external entities, one can observe that the used tools are identical with those proposed by the concept of corporate social responsibility. The concept assumes that, apart from pursuing their own goals, organisations should also take into account the demands and requirements of the so-called stakeholders, that is groups associated with the company. Socially responsible behaviour towards particular stakeholders involves exactly the same strategies as the above-mentioned ways of enhancing trust. This is not surprising as building trust is an important objective of social engagement.

4. Conclusion

The idea of social capital based on, or built around trust can therefore be used even by commercial entities. It can be a category that helps to analyse the behaviour of those entities, or even to study the differences between the results they achieve. The trust-based networks of relationships which a firm establishes with its environment determine the existence and development of every company.

J. Bartkowski says that business activity takes place in a particular social context. Business entities are inseparable from their social and institutional settings. Economic decisions are often based on assumptions which result from the social, not just economic, conditions. The behaviour of the market players is heavily influenced by social relations and non-market interactions. This is true about mutual trust, expected quality of co-operation and willingness to execute contracts in both the long and the short terms [Bartkowski, 2007, p. 56].

G.Colvin even goes as far as to say that in these days, an enterprise should not ask whom they can trust, but rather who is ready to trust them. [Low, Kalafut, 2004, p. 99]. That is why companies are obliged to constantly increase the quality of their social capital.

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